

Message Text

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PAGE 01 TOKYO 02303 170943Z

22-12

ACTION EB-04

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R 170830Z FEB 76

FM AMEMBASSY TOKYO

TO DEPARTMENT OF TREASURY

SECSTATE WASHDC 6940

C O N F I D E N T I A L TOKYO 2303

LIMDIS GREENBACK

FOR YEO FROM ESCOUBE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: TELEPHONE CALL FROM MOF

REF: STATE 37065

1. FUJIOKA REGRETTED NOT BEING ABLE TO REACH UNDER SECRETARY YEO BY TELEPHONE LAST FRIDAY, BUT IN HIS ABSENCE TALKED TO GERRY PARSKY. HE TOLD FINATT THAT PURPOSE OF CALL WAS TWO-FOLD: (A) TO ACKNOWLEDGE RECEIPT OF SECRETARY SIMON'S CORDIAL LETTER SENT FOLLOWING JAMAICA MEETING, TO APOLOGIZE FOR PROCRASTINATION IN REPLYING AND TO SAY THAT MINFIN OHIRA'S ANSWER WAS NOW ON ITS WAY AND (B) TO GIVE SOME EXPLANATION OF WHY THE YEN HAD STRENGTHENED FROM 306/\$1 AT THE TIME OF JAMAICA TO ALMOST 300 LATE LAST WEEK. FYI VMIN YOSHIDA CURRENTLY OUT OF JAPAN ON EXTENDED S.E.A. TRIP. END FYI.

2. FUJIOKA PROVIDED FURTHER OBSERVATIONS ON THE RECENT EXCHANGE MARKET DEVELOPMENTS IN TOKYO. HE SAID THAT THE MOVEMENT SINCE MID-JAN REFLECTED TO A CONSIDERABLE EXTENT SPECULATIVE FLOWS OF FOREIGN FUNDS DUE IN PART TO IMPROVED JAPANESE EXPORT PROSPECTS. FUJIOKA WENT ON TO SAY THAT SINCE MID-JAN THERE HAD BEEN INFLOWS OF TEMPORARY
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 TOKYO 02303 170943Z

FOREIGN FUNDS OF (A) \$200 MIL INTO TWO-MONTH GOJ TREASURY

BILLS (BECAUSE OF ARBITRAGE INCENTIVES), (B) \$400 MIL INCREASE IN FREE YEN DEPOSITS (PROBABLY ALSO ARBITRAGE MOTIVATED), AND (C) \$100 MIL INTO GOJ LONG-TERM BONDS (FINATT BELIEVES THESE MAY BE LONG-TERM INVESTMENTS BY OPEC COUNTRIES THROUGH BOJ FACILITIES). GOJ INTERVENED IN FOREX MARKET AT TIMES TO EASE PRESSURE OF THESE SPECULATIVE (OR ARBITRAGE) FUNDS WHICH WERE LIKELY TO FLOW OUT AGAIN IN NEAR FUTURE, SAID FUJIOKA. IT APPEARED TO HIM THAT SOME OF THESE "SPECULATIVE" PRESSURES WERE ALREADY EASING AND THE YEN HAD WEAKENED THIS MON AND TUES TO ABOVE 301/DOLLAR. FUJIOKA ADMITTED TO FINATT THAT DECLINE IN YEN FROM LATE NOV TO MID JAN ALSO REFLECTED "SPECULATIVE" FACTORS IN THE OPPOSITE DIRECTION, INCLUDING A \$700 MIL BUILDUP IN THE COMMERCIAL BANKS' LONG SPOT DOLLAR POSITION AT THE END OF DEC, FINANCED OUT OF RESERVES, AND AN EQUIVALENT INCREASE IN THEIR SHORT FORWARD POSITION.

3. FUJIOKA COMMENTED THAT TOKYO FOREX MARKET WAS VIRTUALLY UNAFFECTED BY RECENT DEVELOPMENTS IN EUROPE. AFTER INITIAL NERVOUSNESS FOLLOWING MARKET CLOSURE IN ITALY, TOKYO MARKET EVIDENTLY CONSIDERED DEVELOPMENTS IN EUROPE TOO FAR REMOVED FROM SITUATION IN JAPAN.

4. FINATT ASKED WHY MOF HAD NOT IMPOSED "ADMINISTRATIVE GUIDANCE" ON SECURITIES COMPANIES (AS IN MAY-JUNE 75) TO DISCOURAGE INFLOWS SHORT-TERM ARBITRAGE FUNDS WHICH APPARENTLY HAD "UNDESIRABLE" IMPACT ON THE FOREX MARKET. FUJIOKA REPLIED THAT MOF NO LONGER WANTED TO CONTINUOUSLY ALTER ITS EXCHANGE CONTROLS AS IT HAD IN THE PAST.

5. FINATT ASSESSMENT: FUJIOKA'S REFERENCE TO "SPECULATIVE" FLOWS SINCE MID-JAN WITHOUT REFERENCE TO SIMILAR BUT OPPOSITE PRESSURES IN LATE 75 CLEARLY SUGGESTS THAT RATE CLOSE TO 300/DOLLAR IS CONSIDERED BY FUJIOKA AS "ABNORMALLY" HIGH AND THAT DECLINE THEREFORE WOULD NOT BE UNEXPECTED. FINATT MUST PRESUME THAT OPINION OF "APPROPRIATE" RATE OF YEN LINKED TO GOJ'S WIDESPREAD EXPECTATION OF EXPORT-LED RECOVERY FOR JAPAN WHICH YEN RATE OF 301 OR LOWER WOULD ASSIST.

CONFIDENTIAL

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PAGE 03 TOKYO 02303 170943Z

6. JAN PRELIMINARY B/P STATISTICS WILL BE RELEASED WED, FEB 18, AND EXPECTED TO SHOW STRONGER TRADE SURPLUS THAN DEC ON SA BASIS. HIGHLIGHTS WILL BE REPORTED IN WEEKLY WEDNESDAY FINANCIAL DEVELOPMENTS CABLE AND FOLLOWED BY USUAL MORE DETAILED CABLE REPORT.
HODGSON

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